



**ANNUAL REPORT ON THE
ACTIVITIES OF THE CHARITABLE GAMING PROGRAM OF THE
DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES
FOR FISCAL YEAR 2015**

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Commissioner**

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**Annual Report on the Activities of the Charitable Gaming Program of the
Department of Agriculture and Consumer Services for Fiscal Year 2015**

Executive Summary

The Office of Charitable and Regulatory Programs (OCRP) in the Virginia Department of Agriculture and Consumer Services is tasked with the licensing, registering, training, inspecting, auditing, and financial review of organizations, suppliers, manufacturers of electronic pull-tab systems, and personnel involved in charitable gaming in the Commonwealth.

Information in this report includes the number of charitable gaming licenses and registrations issued by OCRP as well as the number of on-site inspections, training sessions, investigations, audits, and financial reviews conducted by staff.

During fiscal year (FY) 2015, OCRP issued 359 charitable gaming licenses to organizations, a decrease of six licenses from the total issued in FY 2014. Licensed organizations report on their charitable gaming activities on a calendar year basis. During calendar year 2014, these organizations reported over \$256 million in gross sales, a decrease of \$2 million from 2013. The amount that organizations donated for charitable, community, educational, or religious purposes increased by approximately \$3 million, from \$25 million in 2013 to \$28 million in 2014. The aggregate use of proceeds increased from 10.1 percent in 2013 to 11 percent in 2014.

OCRP collected more than \$2.6 million in charitable gaming fees that were deposited to the Commonwealth's general fund.

LEGISLATIVE MANDATE

This report is required by § 18.2-340.18(8) of the Code of Virginia.

GENERAL OVERVIEW

Charitable gaming is a sizeable source of funding for many non-profit organizations in Virginia. The Office of Charitable and Regulatory Programs (OCRP) is tasked, in part, with licensing, registering, training, inspecting, auditing, and conducting financial reviews of organizations, suppliers, manufacturers of electronic pull-tab systems, and personnel involved in charitable gaming in the Commonwealth. OCRP also seeks to ensure that licensed organizations meet use-of-proceeds requirements; currently, licensed organizations must use at least 10 percent of their gross sales for charitable purposes. During calendar year 2014, these organizations reported over \$256 million in gross sales, a decrease of \$2 million from 2013. The amount that organizations donated for charitable, community, educational, or religious purposes increased by approximately \$3 million, from \$25 million in 2013 to \$28 million in 2014. The aggregate use of proceeds increased from 10.1 percent in 2013 to 11 percent in 2014.

FINANCIAL INFORMATION

The FY 2015 general fund appropriation for OCRP was \$1,370,447. OCRP collected \$2,498,091 in audit and administration fees, \$100,125 in license and registration application fees, \$45,525 in late fees, and \$750 in other revenue, for a total of \$2,644,491 in fees. These fees were deposited to the Commonwealth's general fund.

ORGANIZATION AND ACCOMPLISHMENTS

OCRP is committed to providing timely and professional services to the charitable gaming community. To facilitate the delivery of these services, OCRP is divided into three functional areas: Charitable Programs Team, Auditing and Financial Reviews Team, and Inspections Team.

Charitable Programs Team

During this reporting period, the Charitable Programs Team issued 312 licenses to organizations wishing to conduct bingo and raffles, 47 raffle licenses, 18 charitable gaming supplier licenses, and seven licenses to manufacturers of electronic pull-tab systems and registered 105 bingo managers and 105 bingo callers.

OCRP provides an online service for applicants to submit their bingo manager and bingo caller registration applications, minimizing the need for applicants to send them in the mail. Seventy-three percent of the 210 applications received by OCRP in FY 2015 were submitted online.

Auditing and Financial Reviews Team

During this reporting period, the Auditing and Financial Reviews Team received 389 annual financial reports reflecting over \$256 million in charitable gaming total gross sales. Auditors performed 89 audits and financial reviews of licensed organizations, during which they identified over \$2.5 million in unreported gross sales. The auditors also ensured that charitable gaming funds were used for allowable charitable, community, educational, or religious purposes as required by statute and regulations. Organizations identified as having excessive unreported revenue were required to develop stricter internal controls and, in some instances, the organizations were required to undergo training. Additional follow-up will be conducted with these organizations to assess their efforts to strengthen their internal controls. In addition, the Auditing and Financial Reviews Team issued 41 letters of caution, 14 notices of violation, and five compliance agreements. The auditors also performed a compliance review of 12 licensed suppliers and six licensed manufacturers of electronic pull-tab systems.

On average, licensed organizations donated 11 percent of their gross sales for charitable, community, educational, or religious purposes. Auditors continue to work with organizations to maximize the charitable, community, educational, or religious use of their gaming proceeds, including the review of unspent bank account balances, analysis of cash shortages, and evaluation of the prize payout structure.

Inspections Team

During this reporting period, OCRP inspectors completed 742 on-site inspections and performed 60 game management training sessions, including 48 sessions for organizations that were new to charitable gaming or that had requested training assistance and 12 sessions resulting from specific findings during an audit or financial review.

OCRP inspectors collaborated with the Virginia State Police on seven investigative audits. Three of these cases identified poor internal control procedures within the subject organizations and resulted in OCRP requiring the organizations to develop stricter internal controls. Four of the cases remain under investigation.

REGULATORY ACTIVITY

In September 2013, the Charitable Gaming Board approved a Notice of Intended Regulatory Action to amend 11 VAC 15-40 *et seq.*, *Charitable Gaming Regulations*, pertaining to network bingo. The notice indicated the agency's intention to convene a regulatory advisory panel to assist in drafting amendments to the regulation. On November 4, 2013, the notice was published in *The Virginia Register of Regulations*. On March 11, 2014, the Charitable Gaming Board approved the creation of a regulatory advisory panel and appointed individuals to the panel. On April 10, 2014, the panel convened in Richmond to discuss network bingo. Based on these discussions, staff drafted amendments to the regulation that included the necessary

technical requirements for network bingo. On September 9, 2014, the Charitable Gaming Board adopted the proposed amendments to the Charitable Gaming Regulations and authorized staff to file the regulatory package for the second stage of the standard three-stage regulatory process. Currently, the regulatory package is undergoing its second Executive Branch Review.

2015 LEGISLATIVE ISSUES

During the 2015 legislative session, the Virginia General Assembly considered six bills pertaining to charitable gaming, five of which failed to report from committee. The remaining bill, Senate Bill 1309 (Ruff), was ultimately signed into law by the Governor. The bill increases the total number of members of the Charitable Gaming Board from nine to 11 and changes the manner in which members are appointed. Instead of the Governor making all appointments to this Board, the Governor will appoint six members, the Speaker of the House will appoint three members, and the Senate Committee on Rules will appoint two members. The bill also provides the qualifications for the new appointees of the Governor and the General Assembly and establishes the order in which such appointments shall be made.